

b. Current Methods Used To Allocate Expenses Are Appropriate

The Commission proposes various methods of allocating certain types of expenses.<sup>42</sup> In general, the Commission should continue to follow the cost principles of Part 64 in allocating expenses. Existing Part 64 rules meet the Commission's criteria for this proceeding.<sup>43</sup> There is no need to change the rules that permit LECs the flexibility to determine their specific allocation methodology.

The Commission proposes that network related investment expense should be allocated in proportion to the allocation of the underlying network facilities.<sup>44</sup> We agree. Similarly, maintenance expense should be allocated in proportion to the plant that is being maintained. The Commission would contradict its own goals if it required LECs to replace this cost-causative allocation with a single, industry-wide arbitrary fixed factor.

Some overheads are allocated using a general allocator. We continue to support the use of a general allocator but recommend that it be simplified. Currently, the general allocator is based on a three-month rolling average of amounts two months in arrears. The application of the general allocator is shown in ARMIS reports. The 1996 Act reduces quarterly ARMIS reporting to an annual report.<sup>45</sup> Thus, the unnecessarily cumbersome present calculation method could be simplified to require only a 12-month aggregate.

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<sup>42</sup> NPRM, paras. 47-50.

<sup>43</sup> NPRM, para. 47.

<sup>44</sup> NPRM, para. 48.

<sup>45</sup> 1996 Act, section 11(b)(2)(B).

c. New Methods Are Not Needed To Allocate Spare Facilities

The Commission inquires into the treatment of spare facilities given the potential that such facilities may be used for either regulated or nonregulated services.<sup>46</sup>

We do not agree with the Commission's perspective that much of the spare capacity may be used exclusively by nonregulated services.<sup>47</sup> That opinion ignores the fact that the network will be capable of delivering all types of services including new telephone services, such as video telephony, made possible because of high capacity facilities. It also ignores the tremendous growth in telephony usage that now requires greater capacity due to new electronic equipment, such as computers, pagers and fax machines, and new services offered over them, such as Internet access. The Commission's concerns about the allocation of spare capacity contemplates a problem where none exists.

The proposal to establish separate cost pools for spare facilities is unnecessary. As the Commission itself recognizes, the allocation of spare capacity follows the allocation of deployed outside plant.<sup>48</sup> Moreover, establishing separate cost pools would be unworkable because accounting records, from which we determine our cost allocations, do not indicate whether facilities are in use or spare. Thus, costs of spare facilities are an inseparable part of the plant's unit cost and cannot be discretely identified. Attempting to identify the extent of specific spare facilities would be an implementation nightmare without significant benefit. Current rules which provide for the allocation of the costs of spare facilities according to the allocation of the associated network plant are far better

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<sup>46</sup> NPRM, para. 52.

<sup>47</sup> NPRM, para. 52.

<sup>48</sup> NPRM, para. 52.

at meeting the Commission's criteria of cost-causality, adaptability to all network architectures, uniformity and ease of administration.

d. Pole Attachments And Conduit Costs Should Be Treated As Any Other Part 64 Prevailing Price

The Commission inquires as to the effect of the 1996 Act requirement that a utility impute a pole attachment rate for its own use of its telephone poles and conduits.<sup>49</sup> That requirement should be treated independently from the Commission's allocation rules. The Commission should not confuse the imputation of costs required by the 1996 Act with the development of cost allocation rules. The 1996 Act only requires that the utility impute the same amount to itself as it charges others for the use of the same facility. Part 64 rules can be used to determine that amount.

Telephone poles and existing conduit are embedded infrastructure required for the effective and efficient delivery of regulated telephone services. Costs associated with these facilities are directly assigned to regulated operations. For a fee, any extra space on these facilities is made available to others. As permitted by state law, we have negotiated pole attachment agreements, including rates, with cable companies.<sup>50</sup> Thus, our pole attachment rates are a prevailing price according to Part 64. Imputation of a prevailing price would meet the requirements of §224(g) and would be conceptually consistent with the Part 64 affiliate transaction rules.<sup>51</sup> The Commission should

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<sup>49</sup> NPRM, para. 55.

<sup>50</sup> California PUC Code Section 767.5 governs the terms, conditions, and calculation of pole attachment rates charged to cable TV operators when the parties are unable to reach agreement. Pursuant to Part 64 rules, the revenues received are treated as incidental, and assigned to regulated activities. Joint Cost Order, para. 77-78.

<sup>51</sup> The same rates charged to third parties (such as CATV operators) would be used to determine the amount assignable to a common cost pool representing telephony and nonregulated use of the assets. The amount would be calculated the same way it is for third parties (such as charge per pole, or fee per

retain this simple approach to determining the amount that a utility should impute. None of the complicated allocation procedures outlined in the NPRM are necessary.<sup>52</sup>

## VI. Conclusion

For the reasons provided above, the Commission can promote the deregulatory and pro-competitive intent of the 1996 Act by forbearing from applying Part 64 requirements to price cap LECs that elect a no sharing option. Where cost allocation continues to have relevance, general guidelines on allocating outside plant will meet the Commission's objectives. Of the allocation methods proposed for costs of outside plant shared by regulated and nonregulated services, the allocation of joint costs based on directly assigned cost best accomplishes the Commission's stated criteria--cost causality, adaptability to any network architecture, uniformity and administrative ease. We urge the Commission to adopt general guidelines that permit each LEC to determine the method that will best meet the

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foot of conduit). The same non-traffic sensitive allocator (in our case, the direct investment factor) used to allocate nontraffic sensitive plant loop costs would be applied to the pole attachment common cost pool and the result associated to nonregulated operations. This is a reasonable cost accounting approach since the plant attached to the pole provides both regulated and nonregulated services. The accounting would follow the procedures established for the accounting for nonregulated use of services: debit nonregulated revenues and credit regulated revenues. 47 C.F.R. §64.901(b)(1); Joint Cost Further Recon. Order, para. 151. This method would also apply to cable operations by a LEC's affiliate. Part 64 rules govern the amounts charged to a carrier in transactions with affiliates. 47 C.F.R. §32.27(d).

<sup>52</sup> NPRM, para. 56.

circumstances particular to its network architecture and as intended by the 1996 Act, encourage deployment of new technologies and services.

Respectfully submitted,

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Date: May 31, 1996

Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, DC 20554

In the Matter of:

Price Cap Performance Review  
for Local Exchange Carriers

CC Docket No. 94-1

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**Comments of the United States Telephone Association  
on Fourth Further Notice of Proposed Rulemaking**

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January 16, 1996

**TOTAL FACTOR PRODUCTIVITY  
METHODS FOR LOCAL EXCHANGE  
CARRIER PRICE CAP PLANS**

**Laurits R. Christensen  
Phillip E. Schoech  
Mark E. Meitzen**

**December 18, 1995**

# **ATTACHMENT A**

**“Total Factor Productivity  
Methods for Local Exchange  
Carrier Price Cap Plans”**

**including**

**“Response to Appendix F: The  
Appropriate Data Set to Use in  
Analyzing Telephone Industry  
Input Price”**

**Laurits R. Christensen, Philip E. Schoech, and Mark E.  
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# **TOTAL FACTOR PRODUCTIVITY METHODS FOR LOCAL EXCHANGE CARRIER PRICE CAP PLANS**

Laurits R. Christensen, Philip E. Schoech

and Mark E. Meitzen

Christensen Associates

December 18, 1995

In its Fourth Further Notice of Proposed Rulemaking,<sup>1</sup> the FCC has raised a number of questions regarding the appropriate methods for measuring local exchange carrier total factor productivity (LEC TFP). In particular, various questions have been posed by the FCC regarding the TFP study we submitted in May of 1994 and updated in January of 1995.<sup>2</sup> We respond herein to the issues directly relevant to the Christensen TFP methods.

The methods we employed in our original LEC TFP study are the same as those employed by Christensen, Christensen, and Schoech<sup>3</sup> in their pre-divestiture study of the Bell System. They are rigorously developed from economic theory, and they provide economically meaningful measures of total factor productivity growth. These methods have also been widely employed by numerous other productivity studies at the firm, industry, and

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<sup>1</sup> Federal Communications Commission, Fourth Further Notice of Proposed Rulemaking, FCC 95-406, September 27, 1995.

<sup>2</sup> Laurits R. Christensen, Philip E. Schoech, and Mark E. Meitzen, "Productivity of the Local Operating Telephone Companies Subject to Price Cap Regulation," Christensen Associates, May 3, 1994, and "Productivity of the Local Operating Telephone Operating Companies Subject to Price Cap Regulation, 1993 Update," Christensen Associates, January 10, 1995. We refer to these collectively as our original study.

<sup>3</sup> Laurits R. Christensen, Dianne C. Christensen, and Philip E. Schoech, "Total Factor Productivity in the Bell System, 1947-1979," Christensen Associates, September 1981.

between jurisdictions: any allocation of these inputs between intrastate and interstate services is arbitrary. We make no attempt to arbitrarily measure interstate and intrastate TFP growth in either our original TFP study or the simplified TFP method.

**Issue 1k. Is there a valid distinction between regulated and nonregulated productivity, or the productivity associated with specific services, such as video dialtone, or groups of services, for purposes of calculating a TFP index and an input price index? If so, does a satisfactory method exist to account for such differences?**

TFP can be calculated for specific services or groups of services only if they do not share joint and common inputs with other services. Both our original TFP study and the simplified TFP method measures TFP for all services that have joint and common inputs with regulated services. Under Part 32 accounting rules, nonregulated services that have joint and common inputs with regulated services are included in operating revenue and operating expense. Hence those services were included in our TFP study. Nonregulated services that have no joint and common inputs with regulated services are not included in operating revenue or operating expense and were not included in our TFP study. Therefore the original TFP study and the simplified method correctly group services for purposes of measuring TFP growth.